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Idaho Bond Bank Authority

New Issue - Moody's Assigns Aa1 to Idaho Bond Bank Authority's Revenue Bonds, 2017A&B

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the Idaho Bond Bank Authority Revenue Bonds, Series 2017A and 2017B in the amount of $22.3 million and $8 million, respectively. Moody's also maintains the Aa1 rating on the Authority's outstanding bonds. Post-issuance, the Authority is expected to have approximately $325.5 million in debt outstanding. The long term rating carries a stable outlook.

The Aa1 rating reflects the broad pledge of the State of Idaho's (Aa1 stable) sales tax revenues that provide ample coverage for debt service in the event of non-payment from the participants in the program. The rating also considers the program's excellent mechanisms for monitoring and ensuring timely debt service payments and the state's ability to intercept revenues.

Credit Strengths

» Continued improvement in state sales tax revenues

» Multiple layers of security and monitoring promote full and timely payment of debt service

Credit Challenges

» Moderate borrower concentration

» State's sales tax pledge also backs a school bond guaranty program on a parity basis, resulting in increased, yet still healthy, leveraging of a primary state revenue stream

Rating Outlook

The stable rating outlook anticipates continued solid coverage of outstanding debt service by sales tax revenues, and continued improvements in state sales tax collections.

Factors that Could Lead to an Upgrade

» Significant strengthening of coverage levels by state sales tax revenues

» Substantially reduced borrower concentration and borrowing amounts

Factors that Could Lead to a Downgrade

» Significant additional leveraging of state sales tax revenues

» Substantial decline in state sales tax revenues

» Increase concentration of largest borrowers

Key Indicators

Number of outstanding Authority loans: 93

Total amount of loans outstanding, post-issuance: $325.5 million

Borrower concentration: 50% for five largest participants; 19% for largest participant

Coverage of peak bond bank debt service by FY2016 sales tax revenues: 46.2 times

Coverage of peak Authority and School Bond Guaranty debt service by FY2016 sales tax revenues: 10.2 times

Recent Developments

Recent Developments are incorporated into the Detailed Rating Considerations.

Detailed Rating Considerations

Program Mechanics, Debt and Legal Covenants: Excellent Mechanics of Bond Bank; Limits on Program Capacity Are Healthy

The Authority's intercept mechanism and the state's sales tax pledge have never been required to support the bond bank's debt service payments, and program provisions provide multiple layers of security and monitoring to promote full and timely payment of debt service. Debt service payments for the Authority's bonds are due semiannually in March and September, and participants in the program are required to pay the bond bank's trustee 15 days prior to the debt service due date. The authority monitors the payments and has excellent mechanisms for ensuring payments are made at or before the 15-day window. If a borrower's debt service payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. If funds are still insufficient for debt service within five days of the payment date, the state treasurer will transfer monies representing state sales tax collections from the state's general fund account sufficient to fulfill any remaining shortfall in debt service requirements.

Each participant in the program is required to execute a loan agreement with the Authority to provide funds and to make payments on their respective loans. There are no cross-default provisions across the loan agreements, so participants are not liable for the failure of any other participant to make their respective loan payments. To enhance the bond bank's governance, the Authority's board continues to enforce improved disclosure requirements for underlying borrowers. Recent years have seen a 100% success rate in ensuring surveillance requirements are met.

The Authority also requires bond bank participants to meet certain standards that strengthen the security of their respective pledges. General obligation pledges require local voter approval; certificate of participations require judicial confirmation or voter approval prior to issuance, and must have a first lien security on pledged revenues; enterprise revenue pledges are required to have a first lien pledge of net revenues, along with rate covenants and additional bonds tests of 1.25 times net revenues. Borrowers from the bond bank appear to be of moderate and satisfactory credit quality, though the majority of loans are attributable to entities not rated by Moody's.

The Authority's board places a limit on the amount of debt secured by the bond bank and the school guarantee programs. The limit caps bond bank issuance at the point maximum annual debt service of the programs reaches 20% of the most recently audited state sales tax collections. Similarly, the Idaho School Bond Guaranty program adopted a policy that essentially mirrors the Authority's debt capacity policy. Finally, Authority policy restricts participant loans to 20% of outstanding total debt (similar to a 5-times additional bonds test). We view these limitations as a prudent step in governing the pace and amounts of future bond bank issuances, although approaching this cap over the long-term would result in significant leveraging of the state's primary revenue source. However, a significant mitigant is that a large portion of the underlying borrowers (23.5% post-issuance) have secured their Authority loans with an unlimited property tax pledge. The remaining underlying pledges are primarily secured by sewer system revenues (47.8%), water system revenues (19.7%), and joint utility system revenues (3.4%), with additional small amounts in a few other types of either general government or enterprise revenue pledges.

DEBT STRUCTURE

Ten-year payout is moderately rapid at 60%. Maximum annual debt service of the Authority's guaranteed debt is $34.2 million in 2019, and debt service declines steadily to $3 million in 2040, with expected final maturity in 2047 at $475,000.

DEBT-RELATED DERIVATIVES

The Authority has no debt-related derivatives.

PENSIONS AND OPEB

The Authority has no pension or OPEB liability.

Tax Base, Nature of Pledge and Debt Service Coverage: Growth in Sales Tax Collections Provides Ample Coverage on Peak Debt Service on Combined State Programs

Idaho's economy maintained above-average growth throughout 2016, even with some moderation in the pace of improvement. We expect Idaho's expansion will moderate in the near term, but the state will remain above-average performer, according to Moody's economy.com. Strong population and housing growth and a favorable business climate will continue to allow Idaho to outperform other states. The application of sales/use taxes is broad and the statewide rate has been steady at 6% since October 2006.

The state's pledge to pay debt service on the bonds using sales tax revenues, in the event the underlying participants do not pay, is subordinate only to the state's tax anticipation notes (rated MIG 1, June 2016) issued in annual amounts of as much as $500 million in recent years. However, the state's notes are secured by additional revenue streams that include individual and corporate income taxes and the state's full faith and credit pledge.

Additionally, the state's pledge in the Bond Bank Authority program is on parity with the Idaho School Bond Sales Tax Guaranty Program (Aa1/NOO) that provides a credit enhancement to an estimated $1.5 billion in debt service on outstanding general obligation bonds issued by school districts.

Based on audited FY2016 financials, gross state sales tax revenues (at $1.58 billion) provided an ample 46.2-times coverage of the bond bank's peak debt service in FY2019 and a still sizable 10.2-times coverage of peak combined debt service for Bond Bank loans and school districts' guaranteed debt. Considering the $500 million in TANs, if paid using sales tax revenues alone, MADS coverage of all guaranteed debt is a still healthy 7-times. Though continued improvement in sales tax revenues should improve coverage levels, additional issuances from the bond bank and school bond guarantees will likely dilute debt service coverage levels but are nonetheless expected to remain strong in the medium-term.

Post-issuance, concentration among Bond Bank participants will increase some, with the top five participants representing 50% of outstanding loan amounts. The participant with the largest amount of debt outstanding is Twin Falls, ID at 19.4% of outstanding loan amounts. The Authority has a policy of have no single participant with more than 20% of outstanding loan amounts.

Management and Governance

Under the program, each series of bonds is secured by pledges of the underlying borrowers. The security for each underlying borrower's loan agreement is typically either a general obligation ad valorem property tax, property tax assessments, certificates of participation, or net enterprise net revenues. The bond bank program includes a credit review process and minimum credit criteria for potential borrowers that involves confirming the legal authority of their pledge to incur debt, evaluating their ability to meet debt service coverage thresholds, and reviewing the operating impact of debt issuance on potential participants.

The Authority's management have implemented excellent surveillance and monitoring processes to ensure borrowers make timely and complete debt service payments. The strong mechanics and stable management are positive credit factors.

Legal Security

The current offering is ultimately secured by the pledge of the state's sales tax revenues to pay debt service on the participant's debt. Participants' pledges vary according to the nature of the underlying security, which includes, in these issuances, net utility system revenues (2017A) and full faith and credit and unlimited tax general obligation pledge (2017B). Additional security is provided by the state's intercept mechanism whereby intergovernmental revenues due to participants will be transferred directly to the trustee to pay debt service, if payments have not been received sufficiently in advance of debt service payment dates.

Use of Proceeds

Proceeds of the issuances will be used to refund various maturities of previously issued debt (2017A) as well as provide for the purchase of water rights (2017B).

Obligor Profile

The Idaho Bond Bank program was established by a series of legislative actions and voter approval. The legislature approved an amendment to the constitution and voters approved creation of the Idaho Bond Bank and the pledge of state sales taxes in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act to provide a mechanism for financing the infrastructure needs of local governments.

Methodology

The principal methodologies used in this rating were US Public Finance Special Tax Methodology published in January 2014 and State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 1

Idaho Bond Bank Authority

Issue	Rating
Revenue Bonds, Series 2017A	Aa1
Rating Type	Underlying LT
Sale Amount	$22,300,000
Expected Sale Date	03/01/2017
Rating Description	Revenue: Other
Revenue Bonds, Series 2017B (Federally Taxable)	Aa1
Rating Type	Underlying LT
Sale Amount	$8,000,000
Expected Sale Date	03/01/2017
Rating Description	Revenue: Other

Source: Moody's Investors Service

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